Zig Zag Education

**Economics** AS & A Level | Edexcel A | 8/9EC0


# Starters and Plenaries

## Theme 1: Introduction to Markets and Market Failure

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POD 7436

# Contents

# Teacher's Introduction

This resource is an activities-only resource that has been designed to support the learning and teaching of Edexcel Theme 1. These useful activities will help to either switch pupils into learning mode at the beginning of the session or to wind down and take learning right up to the end of the lesson. Students will build on their understanding of key terms while developing new knowledge that is integral to the specification.

There are 22 activities in this resource, which closely follow the specification order, and can be conducted as individual, group or full-class activities. Teacher's notes, plus an activity-by-activity plan, are provided at the beginning of the resource to give guidance on how to teach the content. Some of this guidance includes additional activities.

The starters and plenaries included are designed to help teachers prevent any breaks in students' learning by encouraging them to recap previously studied topics or begin to learn new ones. Each activity sheet should take between 10 and 20 minutes to complete. The end of the resource includes an answer sheet for students and/or teachers to use in marking.

It is hoped that this resource, as well as offering support for teaching the essential elements of the Edexcel examination, will help students build on any knowledge they already have.

Happy teaching!

*June 2017*



# Activity-by-activity Plan

| Spec Area | Topic | Activity Description | Notes | |
|---|---|---|---|---|
| 1.1. Nature of Economics | What is economics? | Activity 1 – Match-up the words followed by identifying positive/normative statements | Individual tasks (but can be done in pairs as well, where students can compare their answers) | ✓ |
| | The economic problem | Activity 2 – Discussing the economic problem using image prompts followed by answering a couple of questions (includes QS skills) | In pairs | |
| | Production possibility frontiers | Activity 3 – Complete the graph and complete the table task | Teacher can lead these activities<br>- Drawing the graphs on the board and call upon students to complete the graph<br>- Filling the board with potential business decisions and their opportunity costs | |
| | Specialisation and division of labour | Activity 4 – Identifying the famous arguments for and against the division of labour and then filling in a table. | Students work in pairs as per the instructions. The second part works as pair work.<br>Note that for the second activity, the student on the pro-specialisation and division of labour side is the most likely to win! | |
| | Types of economy | Activity 5 – Research task followed by some guess-the-country/person tasks | Full-class activity. Only do this task after students have been taught about Adam Smith, Karl Marx and Friedrich Hayek. | ✓ |
| 1.2. How Markets Work | Income / cross elasticity of demand | Activity 6 – Match-up activity followed by two more questions | Work individually (or in pairs) | ✓ |
| | Price Elasticity of Demand | Activity 7 – [illegible] | Work individually (or in pairs) | ✓ |

| Spec Area | Topic | Activity Description | Notes | |
|---|---|---|---|---|
| 1.2. How Markets Work | Elasticities 1 | Activity 8 Diagram-based Questions | To be completed in small groups of 4-5 and then answers compared to other groups. Encourage students to work collaboratively supporting each other.<br><br>Note that students should be reminded of the formulae for PED, YED, XED and PES before starting the task | ✓ |
| | Elasticities 2 | Activity 9 A game of noughts and crosses played by correctly answering questions | Split the class into two groups. Only one person can answer from the group at a time.<br><br>Play a game of noughts and crosses on the white board. One-by-one choose an individual from each group to ask a question. The groups will only get to put a nought or a cross for the chosen person from their group if answered correctly. Note the answers are in the tables (see bold terms) but have been converted into questions so they can readily be asked of students. | ✓ |
| | Elasticities 3 | Activity 10 | Split the class into four groups. Nominate one person from each group as the 'leader'.<br><br>Cut out the cards below and hand one to the team leaders. One person from the team needs to try and explain the term to their teammates without using the words listed underneath.<br><br>If they use any of the forbidden words, they will not be allowed to complete the task. Another student may be called upon. | |
| | Supply and demand | Activity 11 – Answering questions | Tasks can be completed individually or in pairs. Questions 2 can be used as a starter activity. | ✓ |

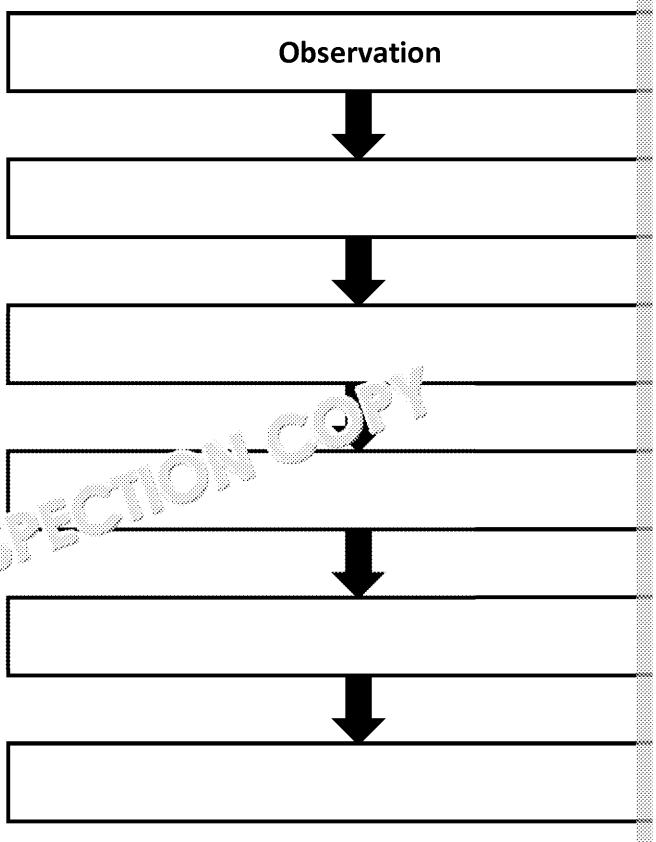
| Spec Area | Topic | Activity Description | Notes | |
|---|---|---|---|---|
| 1.2. How Markets Work (cont.) | Consumer behaviour | Activity 12 – Spot the errors followed by a behavioural economics game | 1 can be done individually. 2 can be done in pairs. | ✓ |
| | Indirect taxes | Activity 13 – Calculation tasks | Students should be divided into groups of 6, where each student from the group answers just one part. The next student needs the answer from the first student to answer his/her part. | ✓ |
| | Subsidies | Activity 14 – Improvement task followed by calculation task | Work individually | ✓ |
| 1.2. How Markets Work | Consumer and producer surplus | Activity 15 – Quick QS with some diagrammatic analysis | Work individually | ✓ |
| | Price mechanism | Activity 16 – Identifying functions of price, followed by identifying true and false statements | Work individually | ✓ |
| | Price determination | Activity 17 – Spotting errors in diagrams and redrawing them | Pair work | |
| 1.3 Market Failure | Market failure | Activity 18 – Writing down definitions | Pair work where students work individually and then mark each other's paper | ✓ |
| | Market failure 2 | Activity 19 – Illustrating information on a diagram (storyboard) | Class activity. The teacher should correct students' answers as they go. | |
| | Market failure 3 | Activity 20 – Identifying the true/false task followed by a question | Individual task | ✓ |

| Spec Area | Topic | Activity Description | Notes | |
|---|---|---|---|---|
| 1.4 Government Intervention | Government intervention | Activity 21 – Presentation task | In groups of four. PowerPoint is not essential. Students should plan their presentations using the blank slides that have been provided. | |
| | Government failure | Activity 22 – Understanding concepts and match-up task | Individual work | ✓ |

# Activity 1 – What is Economi

1. Economic models are slightly different to scientific models. Complete th missing processes involved using words/phrases from the following box. for you:

| | |
|---|---|
| | *forming evidence* |
| *hypothesis bec* | *theory becomes fact* |
| *evi* *ports* *predictions* | *ceteris paribus* |
| *forming predictions* | *if experiment supports hypothesis* |

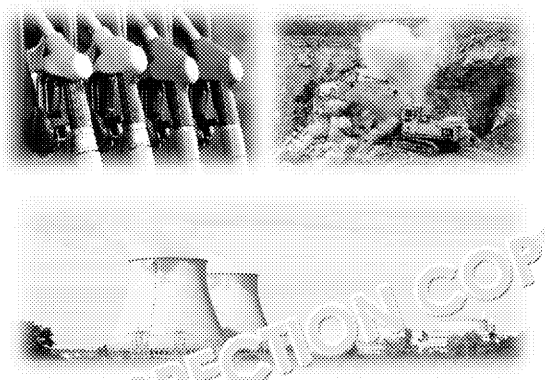
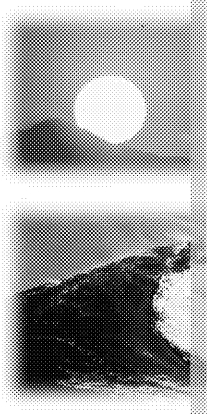



2. State whether each statement below indicates a positive (P) or a normat

- The Bank of England has set the interest rate at a record low of 0.25
- The government is considering impos ar ax.
- The Bank of England ave set the interest rate at 0.25%,
- Ba and aims to keep the inflation rate at about 2%.
- inflation rate is the perfect level of inflation.

# Activity 2 – The Economic Pro

1.

| Needs | |
|---|---|
|  |  |
| **Renewable resources** | **Non-re** |
|  |  |

Discuss, in pairs, the economic problem represented by these pictur

2. a) Explain to your partner what the term opportunity cost means witho the term.

b) A businessman has already reinvested in his business and expects to He is now looking to buy some shares on the stock market, whose re similar investment in government bonds might yield 12%.

What will be the opportunity cost of investing in government bonds?

.....

.....

.....

.....

# Activity 3 – Production Possibility

1. One student will be picked from your class to draw one of the following o
   - PPF
   - Label the axes
   - The maximum productive potential of an economy
   - Efficient allocation of resources
   - Inefficient allocation of resources
   - Unattainable level of production
   - Opportunity cost
   - Increase in economic growth
   - Recession

   *(Note: you may need to draw a separate pair of axes for drawing the shif*

2. The opportunity cost is the value of the next best alternative forgone. A b
   may decide to purchase a new van, but this means that they cannot affo
   circular saw equipment. These pieces of equipment are the *opportunity c*
   purchasing the new van.

   Complete the following table with potential opportunity costs of the bus

| Business Decision | Possible |
|---|---|
| Clothes shop purchases a new line of jeans | |
| A firm repays its loan | |
| School employs more lunchtime staff | |
| Record shop pays a musician to visit and play | |
| Educational publisher writes a new business book | |
| Football team buys foreign player | |
| Bank opens in a new location | |

# Activity 4 – Specialisation and the of Labour

1. Work in pairs and establish whether the following quotes are for or agai

*'The man whose whole life is s... performing a few simple operati... are perhaps alwa... same, or very nearly the same, has no oc... understandin... raise his invention in finding out expedients fo... h ... ar. He naturally loses, therefore, the habit of such ex... comes as stupid and ignorant as it is possible for a human cre...*

**Adam Smith**

*'When every individual person labours a-part, and only for himself, h... execute any considerable work; his labour being employ'd in suppl... necessities, he never attains a perfection in any particu...*

**David Hume**

*'Through cooperation, the needs of a number of persons, many times ... number, can be satisfied.'*

**Ibn Kl... n**

*'The greatest impro... ent... the productive powers of labour, and the ... dexterity, ... ment with which it is anywhere directed, or applied, ... effects of the division of labour.'*

**Adam Smith**

*'... he is thus depressed spiritually and physically to the condition of a r... a man becomes an abstract activity...'*

**Karl Marx**

*'We owe the origin and development of human society and, conseq... civilisation, to the fact that work performed under the division of labo... than when performed in isolation.'*

**Ludwig von ... ises**

*'Where the different kinds ... or ... not distinguished and divided, w... of-all-t... the manufactures remain still in the greates...*

**Immanuel Kant**

## Activity 4 – continued

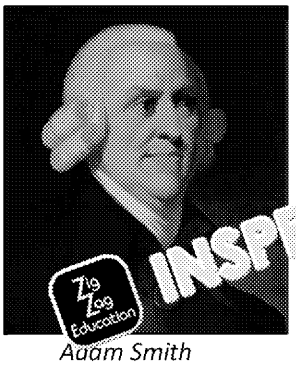
2. Work with the person next to you or in a group.

Divide the task within pairs where one person thinks of examples of busi
and division of labour are very essential and t[illegible]e thinks of example
specialisation and division of labour m[illegible]y of [illegible]k very well. The person
to get to five examples and 'ti[illegible]'. Choose which side of the sca
specialisation and di[illegible] of [illegible]bour' or 'specialisation and division of lab
toss of a coin'

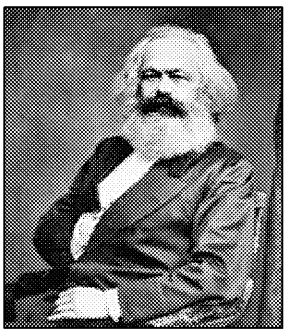
| Specialisation and division of labour | | No Specia[illegible] |
|---|---|---|
| |  | |

# Activity 5 – Types of Econor

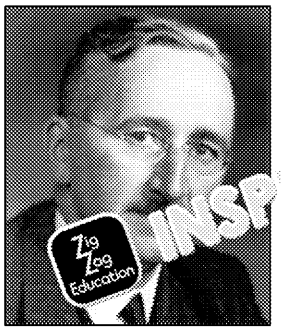
1. Match the quotes to the economists




*Adam Smith*



*Karl Marx*




*Friedrich Hayek*

'It is not from the benevolenc
brewer ... baker, that we e
fr... ir regard to their own

'Each tries to establish over th
so as thereby to find satisfacti
need.'

'In the Western world some p
threatened by the extremes of
due to circumstances beyond t
been accepted as a duty of the

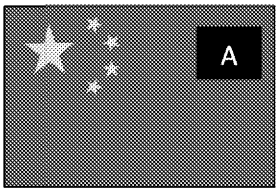
'Communism is the riddle of h
knows itself to be this solutio

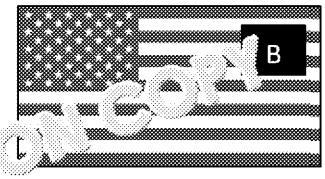
'The natural effort of every in
own condition...is so powerful
without any assistance, ... cap
soci... t... wealth and prosperi

'There is no reason why... the
to organize a comprehensive s
insurance.'

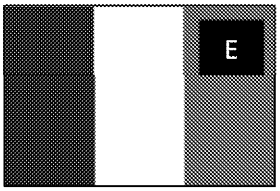
2. Place each country / territory on the continuum from free market to com

**Command Economy** **Mixed**



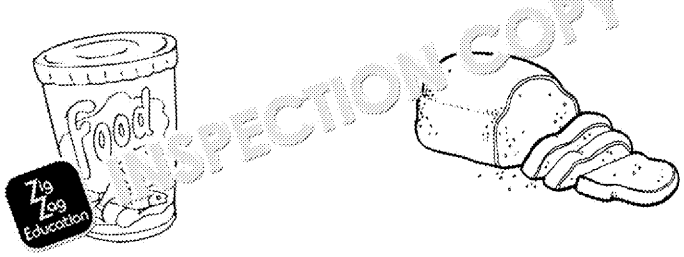







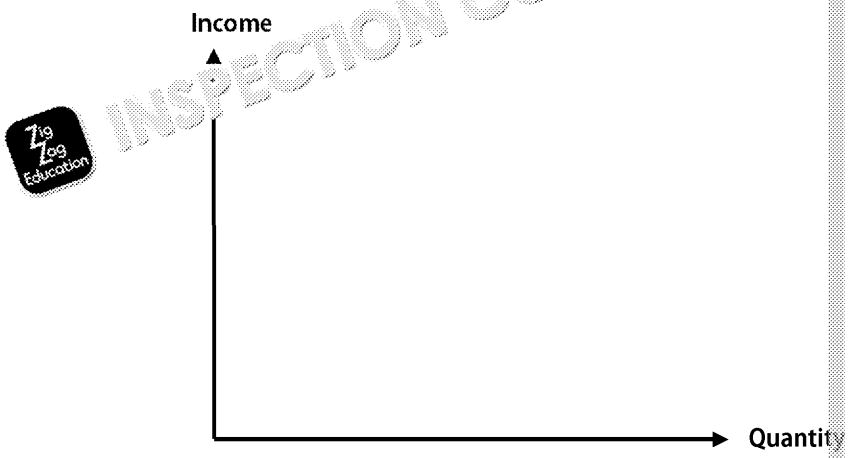
# Activity 6 – Income/Cross Elasticity o
# (YED/XED)

1. Match-up the following:




| | | |
|---|---|---|
| Positively elastic demand | Positively inelastic demand | |
| 0 < YED < 1 | YED < 0 | |
| Normal/luxury good | Inferior good | |

2. Draw the demand curves for luxury and inferi[illegible]od. on the same axes p




3. a) Define cross elasticity of demand.

.....

.....

b) Pepsi and Coca-Cola are [illegible]itutes. Explain how it will help th
that the XED bet[illegible]n th[illegible] two drinks is +1.5.

.....

.....

.....

.....

# Activity 7 – Price Elasticity of De

1. Explain what is meant by price elasticity of demand (PED).

.....

.....

.....

2. Wh e formula for PED?

.....

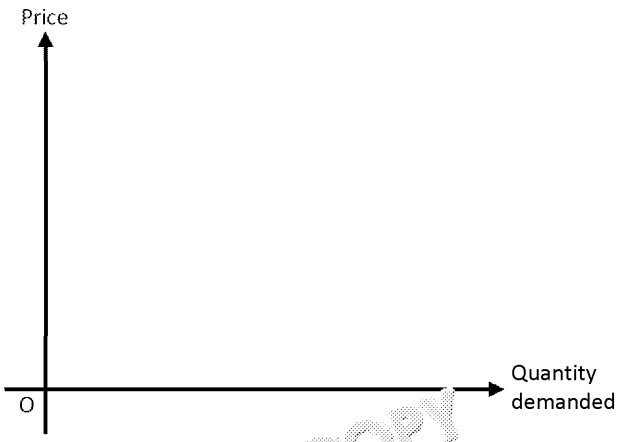
.....

.....

3. a) Identify the problem with the following formula and write out the co

$$\text{Total revenue} = \frac{\text{Price}}{\text{Quantity}} \times 100$$

b) On the axes below show how a fall in price will lead to an increase i r p on.



c) On a separate diagram, show how an increase in price will lead to a d spending by a smaller proportion.

d) When is total revenue maximised?

.....

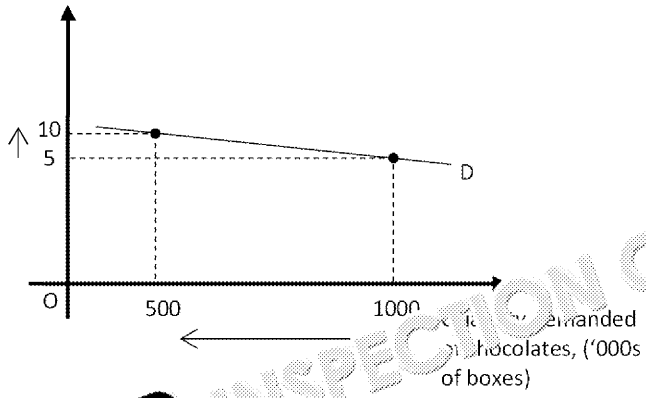
.....

# Activity 8 – Elasticitie

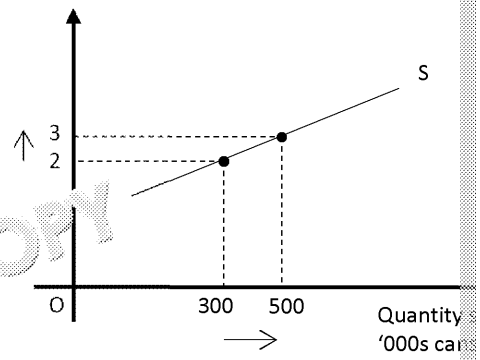
1. In your group, look at the graph you h… ee …n and work out the answer. Then compare you… and supporting each other

**A**

**Calculate the p… tic… …nd of a box of chocolates. Is … …d p…ice elastic or inelastic?**

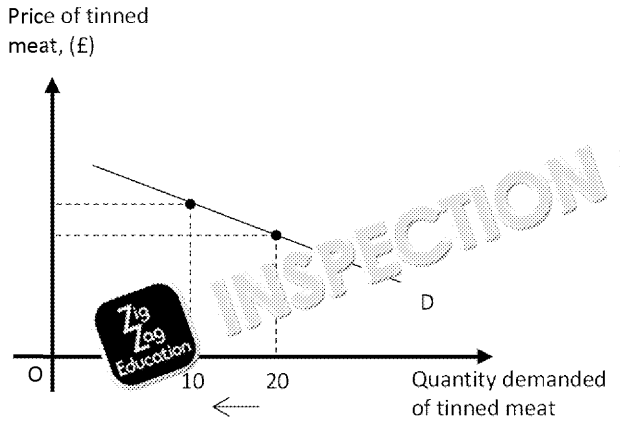



**Calculate the price elasticity of supply of a can… soup. Is the supply price elastic or inelastic?**

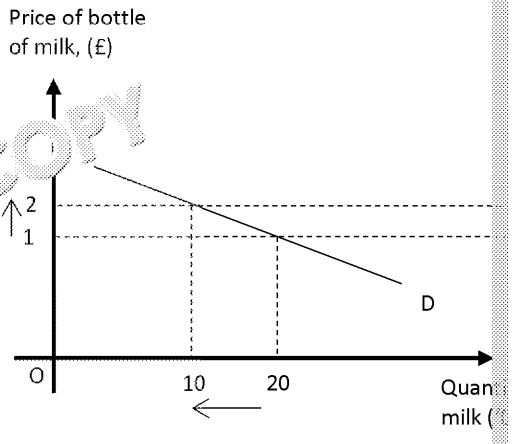



**D**

**Real income i… …es from £1,000 to £1,500 a month. Calculate the income elasticity of demand of tinned meat. What type of good is this?**




**Calculate the cro… type of good is t…**



# Activity 9 – Elasticities 2

## Teacher Sheet

1. Split the class into two groups to play a game of noughts and crosses on the white individual from each group to ask a question. The groups will only get to put a no from their group has answered correctly. Note the answers are all in the tables (s converted into questions so they can readily be asked of students.

**Question:** Interpret the numerical values of PED, XED, YED and PES.

| PED value | Level of elast |
|---|---|
| What does **PED > 1** tell us about the demand? | What is the numerical value **relatively elastic**? |
| What does **PED < 1** tell us about the demand? | What is the numerical value **relatively inelastic**? |
| What does **PED = 1** tell us about the demand? | What is the numerical value **elastic**? |
| What does **PED = 0** tell us about the demand? | What is the numerical value **perfectly inelastic**? |
| What does **PED = infinity** tell us about the demand? | What is the numerical value **perfectly elastic**? |

| YED value | Level of elasticity of |
|---|---|
| What does **YED > 0** tell us about the demand? | What is the numerical value **positively elastic/inelastic**? |
| What type of good does YED > 0 d | What is the numerical value **normal**? |
| Give an example of with YED > 0 | What is clothing an example |
| Wh **0 < YED < 1** tell us about the dem | What is the numerical value **relatively inelastic**? |
| What type of good does 0 < YED < 1 depict? | What is the numerical value **necessity**? |
| Give an example of a good where YED is between 0 and 1 | What is milk an example of? |
| What does **YED > 1** tell us about the demand? | What is the numerical value **relatively elastic**? |
| What type of good does YED > 1 depict? | What is the numerical value **luxury good**? |
| Give an example of a good with YED > 1 | What is television an exampl |
| What does **YED = 1** tell us about the demand? | What is the numerical value **elastic**? |
| What type of good does YED = 1 depict? | What is the numerical value **normal**? |
| Wh **YED < 0** tell us about the dem | What is the numerical value **negatively elastic/inelastic**? |
| What type of good does YED < 0 depict? | What is the numerical value **inferior**? |
| Give an example of a good with YED < 0 | What is tinned meat an exam |

# Activity 9 – Elasticities 2 (cor

| XED value | Level of elasticity of demand |
|---|---|
| What does **XED > 0** tell us about the demand? | What is the numerical value o **positively elastic/inelastic**? |
| What type of good does XED > 0 depict?<br><br>Give an exampl | What is the numerical value o **substitute good**?<br><br>What are tea and coffee exa |
| W pe **ED < 0** tell us about the d ? | What is the numerical value o **negatively elastic/inelastic**? |
| What type of good does XED < 0 depict?<br><br>Give an example. | What is the numerical value o **complementary good**?<br><br>What are cars and fuel exam |
| What does **XED = 0** tell us about the demand? | What is the numerical value o **relationship** between the de |
| What type of good does XED = 0 depict?<br><br>Give an example. | What is the numerical value o **unrelated**?<br><br>What are phones and jackets |

| PES value | Level of elasticity of supply |
|---|---|
| What does **PES > 1** tell us abo supply? | What is the numerical value **relatively elastic**? |
| What does **PE** < 1 tell us about the | What is the numerical value **relatively inelastic**? |
| W oes **PES = 1** tell us about the supply? | What is the numerical value **elastic**? |
| What does **PES = 0** tell us about the supply? | What is the numerical value **perfectly inelastic**? |
| What does **PES = infinity** tell us about the supply? | What is the numerical value **perfectly elastic**? |

# Activity 10 – Elasticities 3

## Teacher Sheet

Split the class into four groups. Nominate one person from each group as the

Cut out the cards below and hand one to the team leader. One person from t
the term to their teammates without using the words listed underneath.

If they use any of the words, they will not be allowed to complete t
be called

Here are the cards:

**Price elasticity of demand**

- Price
- Elasticity
- Demand
- Elastic
- Inelastic
- Perfectly
- Unitary
- Relatively

**Price elasticity of su**

- Price
- Elasticity
- Supply
- Elastic
- Inelastic
- Perfectly
- Unitary
- Relatively

**Cross elasticity of demand**

- C
- El
- Demand
- Elastic
- Inelastic
- Substitutes
- Complementary
- Relatively
- Perfectly

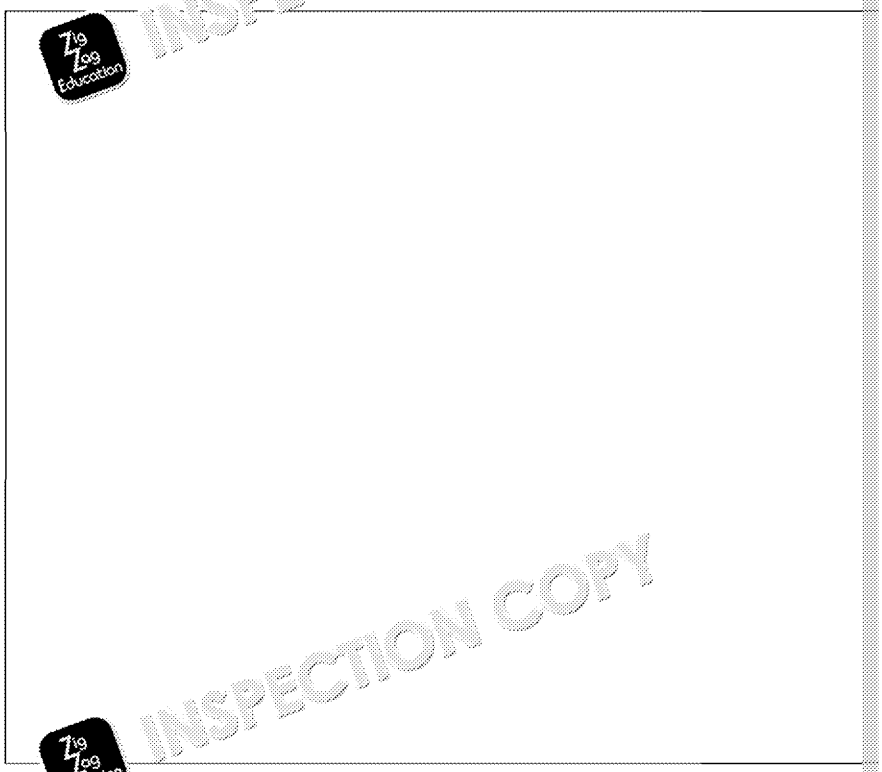
**Income elasticity of**

- Income
- Elasticity
- Elastic
- Inelastic
- Normal goods
- Inferior goods
- Luxury goods
- Relatively

# Activity 11 – Supply and Dem

Oil prices are very volatile. During the 2008 global financial crisis, a fall in dem
the plummeting prices. Although global demand is still somewhat weak, and
the renewable energy sector, the main explanation for the more recent price
there is a glut of supply.

1. Show the above information on a supply and demand diagram (*remembe*



2. Why are oil prices volatile?

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.....

.....

3. In pairs discuss why the demand curve is downward-sloping and the supp

# Activity 12 – Consumer Behav

1. Spot the errors in the two paragraphs below and correct them in 30 seco

   a) People are always rational. Consumers want to satisfy their needs a choose expensive products because they ... ke ... to be higher qual their energy suppliers when it be... s t... . Firms, too, are rationa a result, firms will be ha... to ... ate at lower profit margins, as lo consumer base.

   b) ...e ... always irrational in their choices. There are many reason ...pressure: others' habits make it hard for a person to stop cons service. People do not get used to things. Past experiences have no Consumers look at the long-term effect of a good when deciding wh often have difficulty in understanding the mathematics surrounding exaggerate big probabilities.

2. Now, in groups of three, cut out the £10 note drawn below.


Per... as the note, and needs to make an offer to Person B as to how mon... with them. If Person B agrees to the offer, both will get the mone if Person B disagrees with the offer, both players will not get nothing, an £10. The players may not negotiate and can only have one go at it.

Note down the response and compare with other groups. What does thi make choices? Did the As, Bs or Cs in the class come out with the most r As expected them to when they made their offer? Why did the Bs make t rational to get the most money, was it out of a sense of fairness?

# Activity 13 – Indirect Taxes

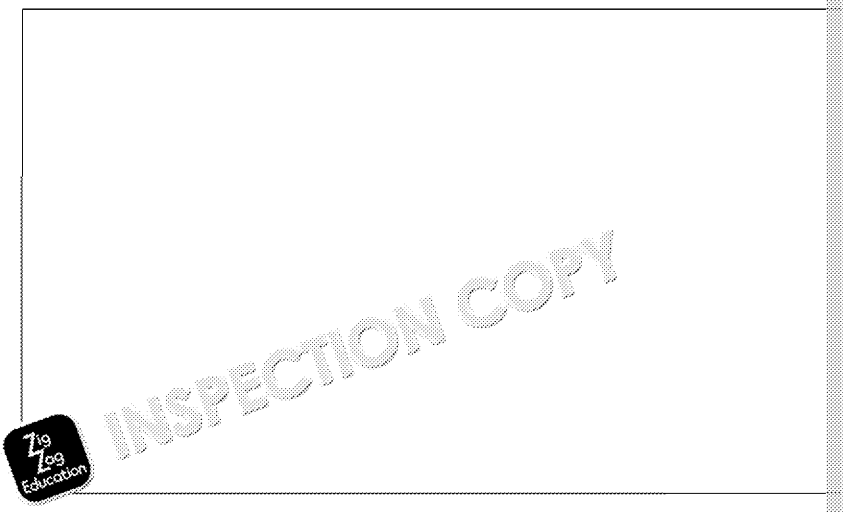
| Price (£) | Quantity supplied of alcohol | Quantity der |
|---|---|---|
| 10 | 200 | |
| 12 | 400 | |
| 14 | 600 | |
| 16 | [illegible]00 | |
| 18 | 1000 | |
| 20 | 1200 | |

1. Usi[illegible]bove data, work out the following questions.

   a) State the equilibrium price.

   .....

   b) Plot the demand and supply curves below. (Remember to label the cu[illegible]



   The government has now decided to tax alcohol at £1.50 a bottle.

   c) Show this on the above diagram.

   d) Calculate the government revenue.

   .....

   .....

   .....

   .....

   e) Can you estimate th[illegible]tax on:

   i) Con[illegible]

   .....

   ii) Producer .....

   .....

# Activity 14 – Subsidies

1. "Subsidy is the opposite of taxation."

   That's a rubbish definition. Can you do better?

   .....

   .....

   .....

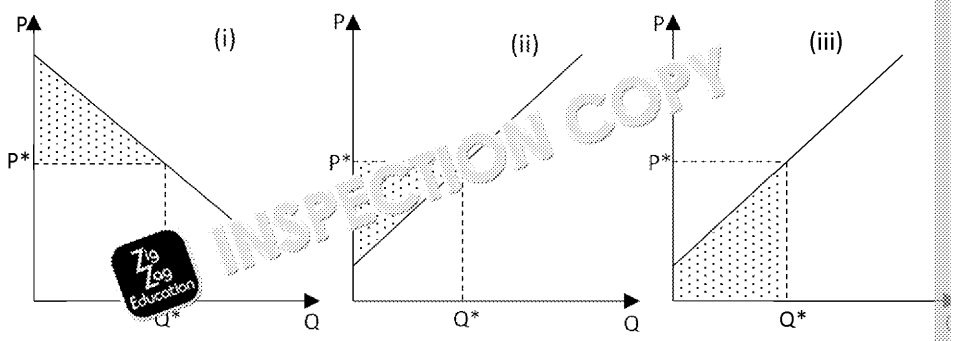
   .....

   .....

2. The government decides to subsidise solar panels at £100 a panel for all n
   cost to the government of the subsidy is £125,000. If the new equilibriu
   panels, work out the old equilibrium quantity.

# Activity 15 – Consumer and Produc

1. Identify which of the following diagrams represent (a) consumer surplus

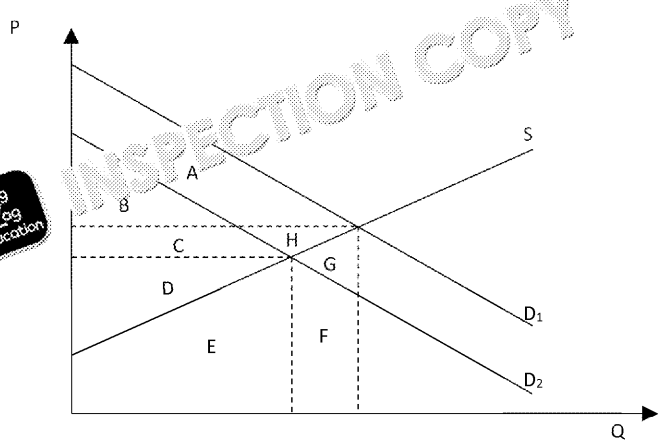



Normalitea Ltd is a producer of teas, coffees and cakes. A new company, whi
moved in and is offering lower prices. Normalitea Ltd is experiencing a visible

2. a) Why will this move affect demand for Normalitea?

.....

.....




b) Which area in the diagram above represents Normalitea's new cons

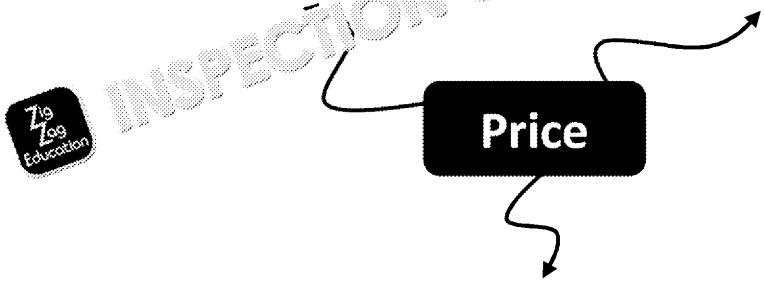
.....

c) Which area in the diagram above rep es nt ormalitea's new prod

.....

# Activity 16 – Price Mechanis

1. What are the three main functions of price? Explain what they mean.




2. a) State whether the following statements about the price mechanism
or false.

   i) If UK emigration exceeds its immigration t[illegible] the demand for U
   increase.

   ii) Net migration will de[illegible]mand for housing in the UK.

   iii) An increase in demand for housing will extend the supply o

   iv) A decrease in the demand for housing will cause the supply cur
   to the left.

   v) If the UK sees an increase in the number of tourists from other E
   the pound-euro exchange rate will appreciate.

   b) Now write down the correct statements.

   i) .....

   .....

   ii) .....

   .....

   iii) .....

   .....

   iv) .....

   .....

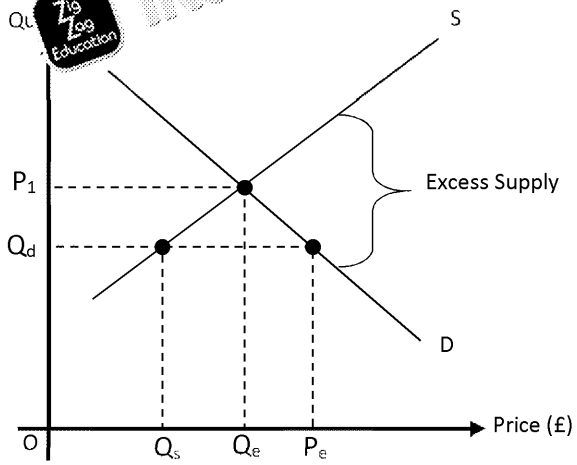
   v) .....

   .....

# Activity 17 – Price Determinat

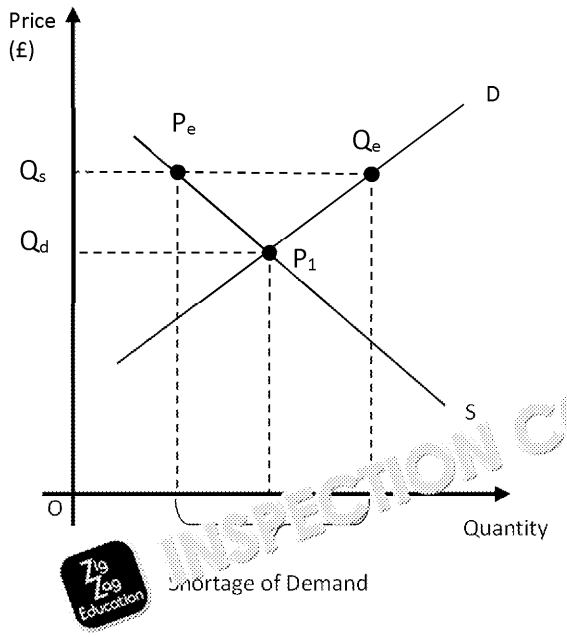
1. In pairs, each student should complete part (a) and then pass swap cards w complete part (b).

(a) Circle the mistakes in the di ra below.




(b) Get your partne diagram correct

a) he istakes in the diagram below.




(b) Get your partne diagram correct

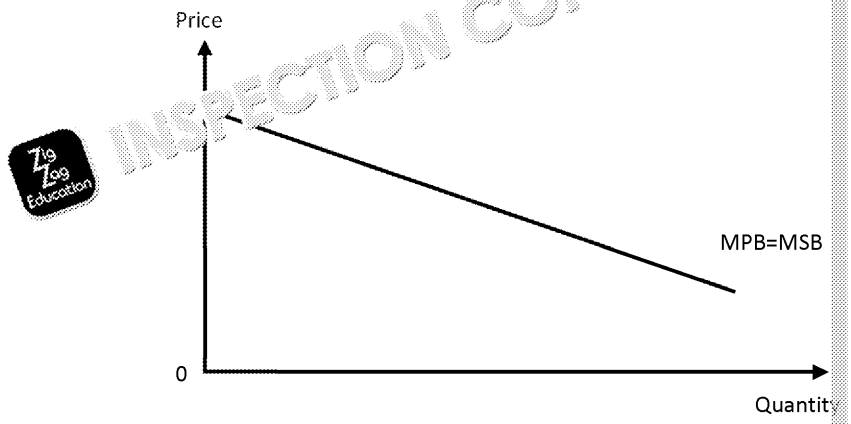
# Activity 18 – Market Failur

1. You have five minutes to write down the definitions to six of the followin the person next to you and mark each other's answers.

| | |
|---|---|
| Market failure | |
| Misallocation of resources | |
| Externality | |
| Pr os | |
| Ext cost | |
| Social cost | |
| Private benefit | |
| External benefit | |
| Social benefit | |
| Marginal private cost | |
| Marginal private benefit | |
| Marginal social cost | |
| Marginal social benefit | |
| Marginal analysis | |
| Market equilibri | |
| Sc ti eq m | |
| Welfare loss | |
| Welfare gain | |
| Economic agents | |
| Government intervention | |
| Public goods | |
| Private goods | |
| Non-rivalrous goods | |
| Non-excludable goods | |
| Free-rider problem | |
| Symmetric infor tic | |
| A tri inf tion | |
| Merit goods | |
| Demerit goods | |

## Teacher Sheet

Illustrate the diagram below on the board.




Split the class into *five* groups and hand out the following cards. Students sho
their groups. You will then ask the groups to complete the tasks set out on th

**Group 1**

You are the the producer of a br[illegible] cigarettes, 'Imperial Smok[illegible] Illu[illegible] on the board the pri[illegible] producing cigaret[illegible]

**Group 3**

You are a member of a committee. Illustrate board the *welfare loss* cigarettes.

**Group 2**

You are a member of an anti-smoking pressure group. Illustrate on the diagram on the board the cost that you believe is imposed on society by Imperial Smokes producing cigarettes.

**Group 5**

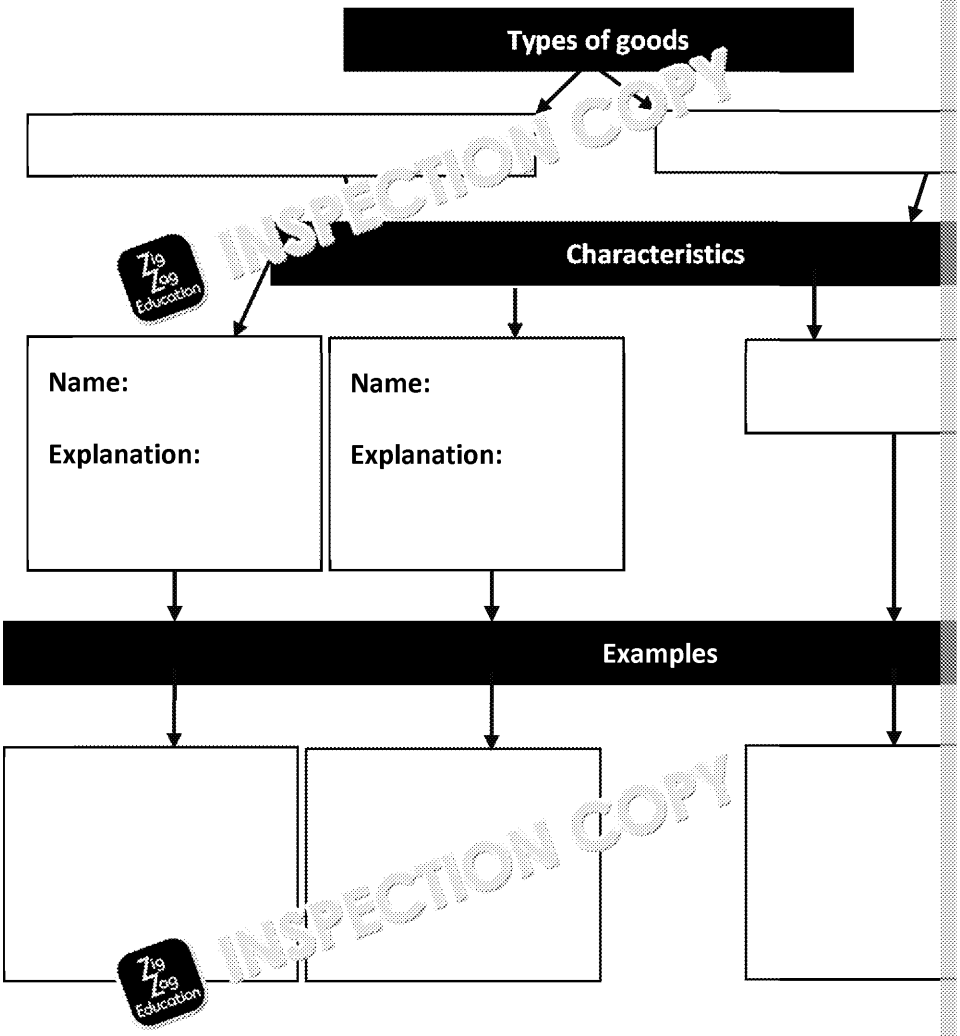
You represent the Tre diagram on the board the production of ciga to eliminate welfare l

**Group 4**

You represent the Department of Health. Briefly explain some measures other than taxation that the government could take to eliminate, or at least reduce, this los welfare.

# Activity 20 – Market Failure

1. Complete the tree diagram below.




2. Explain the free-rider problem without using any of the words in the term

.....

.....

.....

.....

.....

.....

# Activity 21 – Government Interv

1. In groups of four, make a brief presentation plan for your class summaris
intervene in markets. You may use one of the following methods used b

a) Subsidising merit goods
b) Taxing demerit goods
c) Maximum prices
d) Minimum prices
e) Tradable p[illegible] permits

**Market failure**

.....
.....
.....

**Appropr**

.....
.....
.....

**Proposed solution**

.....
.....
.....

**Diagra**

.....
.....
.....

**How does the solution work?**

.....
.....
.....

**Eva**

.....
.....
.....

# Activity 22 – Government Fai

1. Explain the difference between government failure and market failure.

.....

.....

.....

.....

.....

.....

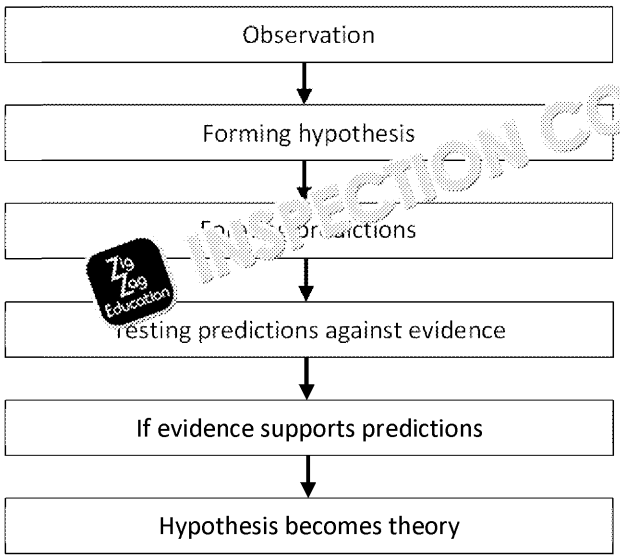
2. Below is a list of some of the reasons why governments may cause the m
with their correct explanation.

| | |
|---|---|
| **Information gaps** | Intervention gen administration c to the governme compliance of ru fines, taxes, etc. greater than the intervention may |
| **Administrative costs** | Government inte some additional |
| **ion of price mechanism** | Government ma priorities, which incorrect or com taking place to d failure. |
| **Conflicting priorities** | Government dec informed due to information. |
| **Unintended consequences** | There is a misallo when the price m allowed to functi |

# Answers

## Activity 1 – What is economics?

1.




2.
- The Bank of England has set the interest rate at a record low of 0.25%.
- The government is considering imposing a sugar tax.
- The Bank of England should not have set the interest rate at 0.25%, as it is very
- The Bank of England aims to keep the inflation rate at about 2%.
- A 2% inflation rate is the perfect level of inflation.

## Activity 2 – The economic problem

1. a) **Needs**:
Examples may incl
- Clothi
- Food
- Shelter
- Water

**Wants**:
Examples may include:
- Chocolates
- Computers
- Cars

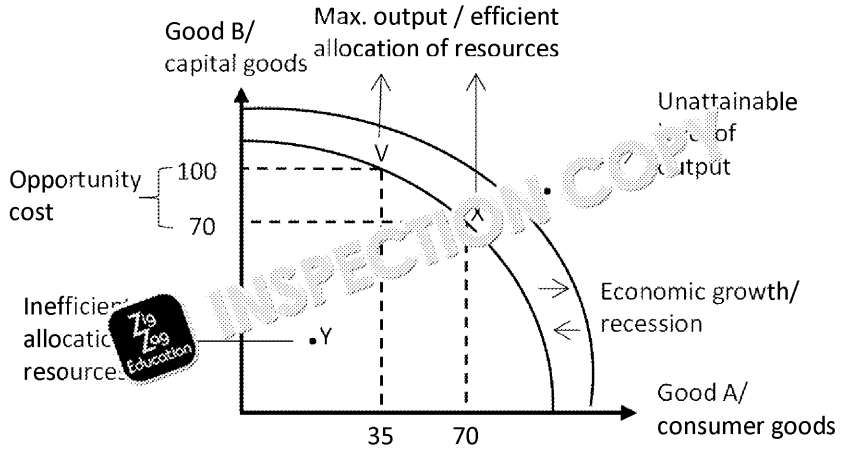
**Renewable resources:**
Examples may include:
- Solar energy
- Wood
- Biomass

**Non-renewable resources:**
Examples may include:
- Coal
- Oil
- Gas

2. a) E.g. it represents the value of the next best alternative forgone.
b) 15% – 12% = 3%

## Activity 3 – Production Possibility Frontiers

1.




2.

| Business Decision | Possible O |
|---|---|
| Clothes shop purchases a new line of shirts | e.g. a line of regular sell |
| IT firm repays its loan | e.g. new equipment |
| School employs more lunchtime staff | e.g. teaching assistants |
| Record shop pays a musician to visit and play | e.g. new stock |
| Educational publisher writes a new business book | e.g. economics book |
| Football team buys foreign player | e.g. local player/s |
| Bank opens in a new location | e.g. promotional market |

## Activity 5 – Types of [illegible]

1. a) Adam Smith
   b) Karl Marx
   c) Friedrich Hayek
   d) Karl Marx
   e) Adam Smith
   f) Friedrich Hayek

2.

**Command Economy** **Mixed**

Cuba China France UK

## Activity 6 – Income/Cross Elasticity of Demand (YED/XED)

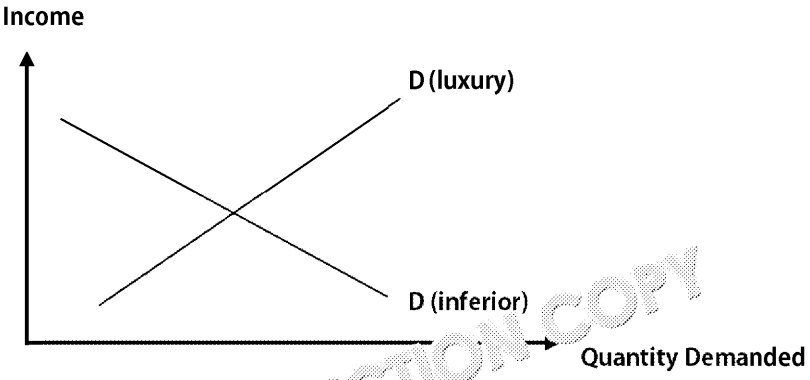
1. 


Negatively elastic / inelastic demand / YED < 0 / Inferior good

Positively inelastic demand / 0 < YE 1 / Normal good / nece

Positively elastic demand / YED > 0 / Normal / luxury good

2.




3. a) Th e to which there is a change in the demand for a good A, following a
b) YED bigger than 1 suggests that cross elasticity of demand is elastic. This mea price of Pepsi will result in a massive increase in the demand for Coca-Cola. Li marginally, it will experience a massive increase in demand, as consumers swi

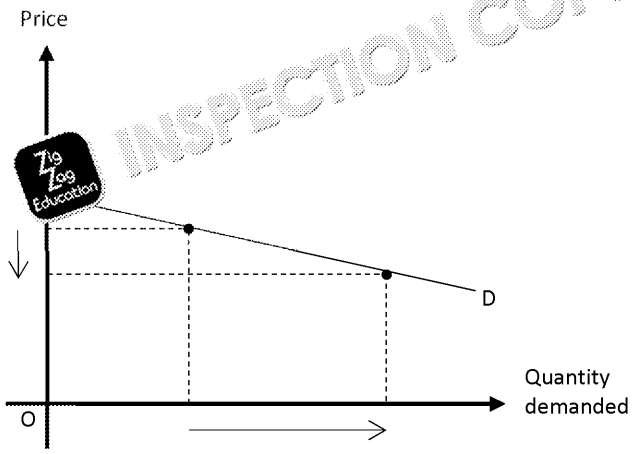
## Activity 7 – Price Elasticity of Demand

1. PED measures the responsiveness of demand following a change in the price of a go

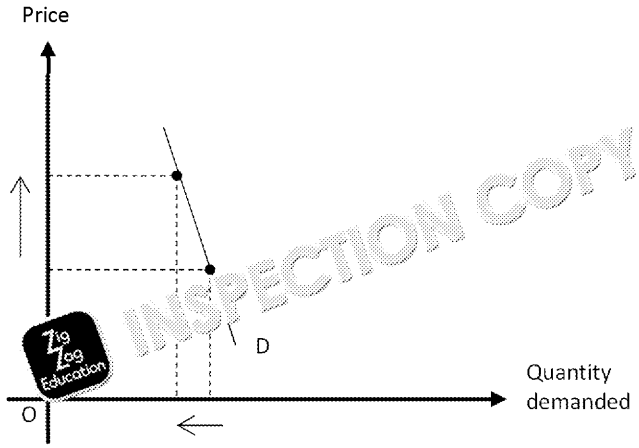
2. Price Elasticity of Demand = $\frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$

3. a) Total revenue = Price × quantity

b)




c)




d) When demand is unit elastic.

## Activity 8 – Elasticities

A. % change in demand = $\frac{500,000 - 1,000,000}{1,000,000} \times 100 = -50\%$

% change in price = $\frac{10 - 5}{5} \times 100 = 100\%$

PED (chocolates) = $\frac{-50}{100} = -0.5$

Inelastic demand

B. % change in supply = $\frac{400,000 - 300,000}{300,000} \times 100 = 66.67\%$

% change in price = $\frac{3 - 2}{2} \times 100 = 50\%$

PES (soup) = $\frac{66.67}{50} = 1.3$

Elastic supply

C. % change in demand = $\frac{150,000 - 50,000}{50,000} \times 100 = 200\%$

% change in income = $\frac{35,000 - 30,000}{30,000} \times 100 = 16.67\%$

YED (flowers) = $\frac{200}{16.67} = 12$ (approx.)

Luxury good

D. % change in demand = $\frac{10 - 20}{20} \times 100 = -50\%$

% change in income = $\frac{1,500 - 1,000}{1,000} \times 100 = 50\%$

YED (wine) = $\frac{-50}{50} = -1$

Inferior good

E. % change in demand of tea = $\frac{5 - 15}{15} \times 100 = -66.67\%$

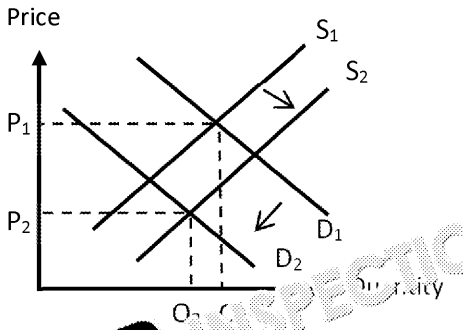
% change in price of milk = $\frac{2 - 1}{1} \times 100 = 100\%$

XED (tea or milk) = $\frac{-66.67}{100} = -0.67$

Complementary goods

## Activity 11 – Supply and demand

1.




2. Commo[illegible]such as oil, tend to have an inelastic demand, as well as an inelastic s[illegible] price brings about a much smaller change in demand or supply of oil – particularly i[illegible] discover new sources of oil. As a result, there is great price volatility in the market f[illegible] oil faces frequent changes – and these changes are often large.

## Activity 12 – Consumer behaviour

1. a) People are **always** rational. Consumers want to satisfy their needs and, hence[illegible] products because they are likely to be higher quality. People **will always** switc[illegible] benefits them. Firms, too, are rational in their decision making. As a result, fi[illegible] **lower profit margins**, as lower prices help to widen the consumer base.

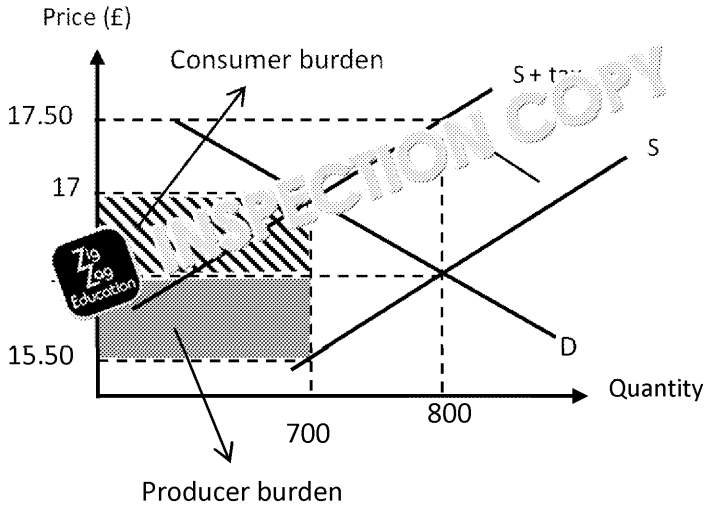
   Corrections:
   - People tend to be but aren't always rational.
   - Not everyone is satisfied with higher quality goods and services – someti[illegible] Also high price is not a guarantee of high q[illegible].
   - Different firms have different obje[illegible]ives (i[illegible]ome firms may not want to[illegible] want to earn more profit).

   b) People are **alw**[illegible]t[illegible]al in their choices. There are many reasons for this. [illegible] **ot**[illegible]ab[illegible]e it hard for a person to stop consuming a certain good or a[illegible] th[illegible]st experiences have **no** impact on people's decisions. Consumers lo[illegible] whe[illegible] deciding whether to consume it. People often have difficulty in underst[illegible] their choices: they tend to exaggerate **big** probabilities.

   Corrections:
   - People are sometimes irrational in decision making.
   - One's own habits make it hard for a person to stop consuming a certain g[illegible]
   - People do get used to things.
   - Past experiences do have an impact on people's decisions.
   - Consumers' decisions tend to be based on the short-term effects/utility.
   - People tend to exaggerate small probabilities.

## Activity 13 – Indirect taxes

1. a) £16
   b) and c)




   d) 700 × 1.50 = £1,050
   e) i) 1 × 700 = £700
      ii) 0.5 × 700 = £350

## Activity 14 – Subsidies

1. E.g. A sum of money, typically given by the government, to cer ain producers to ens produced and sold at a cheap price. However, subsid es are not just used to ensure employed to achieve other socio-economic ob ectives.

2. $\frac{125,000}{100}$ = 1,250 solar pa e subsided

   1,500 - 2 0 solar panels (original quantity)

## Activity 15 – Consumer and producer surplus

1. (i) Consumer surplus
   (ii) Producer surplus

2. a) It will affect the demand for Normalitea's products because the competitor su paribus, when the substitute good is cheaper, we'd expect people to reduce th good.

   b) Consumer surplus = B + C

   c) Producer surplus = D

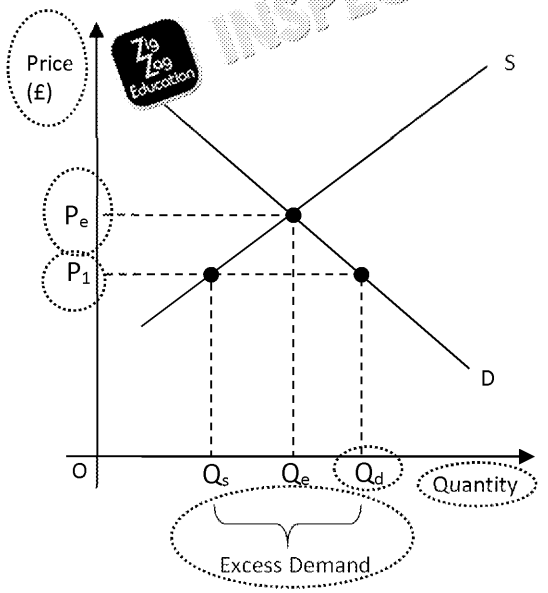
## Activity 16 – Price mechanism

1. **Rationing**
   Given that resources are sca e, so e goods and services that we produce from th a rationing device to a ocate goods and services to consumers who are ready to pa
   **Signalli**
   Price ca changes in demand and supply. For example, an increase in price w increased. So, producers would need to expand supply to get rid of the excess dem
   **Incentive**
   Increasing the price means producers are encouraged to produce more goods and s benefit from higher profits.

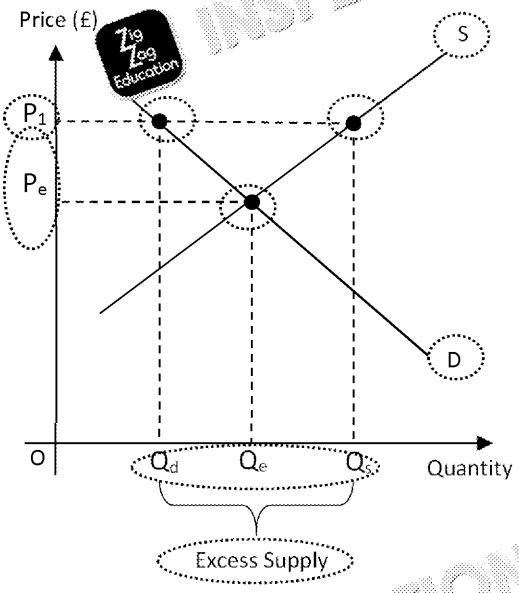
2. a) i) false
   ii) false
   iii) true
   iv) false
   v) true

b) i) If UK **immigration** exceeds its **emigration** then the demand for UK housin
   ii) Net migration will **increase** demand for housing in the UK.
   iv) A decrease in the demand for housing will c... **demand** curve to sh...

## Activity 17 – Price determination




Corrected ... indicated b...



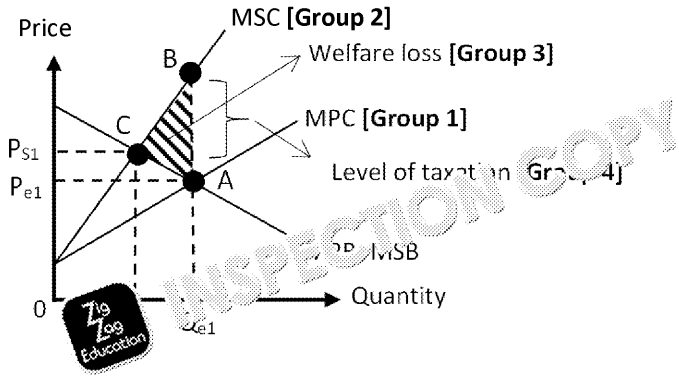
## Activity 18 – Market failure

1.

| | |
|---|---|
| **Market failure** | This refers to the misallocation of resources that resu… when left alone. |
| **Misallocation of resources** | This refers to the inefficient use of resources. In othe… the best possible way, which m…ans the market is no… |
| **Externality** | This refers to the add…l …nsequences, positive or n… |
| **Private cost** | This is the di… co… f production to the producer. |
| **External cost** | T… t… st to the third party of production or cor… |
| **Social cost** | …the external cost and private cost combined. |
| **Priv… …ef…** | This is the direct benefit or utility of consumption to t… |
| **Exte… …efit** | This is the benefit to the third party of production or c… |
| **Social benefit** | This the external benefit and private benefit combine… |
| **Marginal private cost** | This is the private cost of producing one more unit of … |
| **Marginal private benefit** | This is the private benefit of consuming one more un… |
| **Marginal social cost** | This is the cost of producing one more unit of a good … |
| **Marginal social benefit** | This is the benefit of consuming one more unit of a go… |
| **Marginal analysis** | This refers to gaining understanding on effects of pro… units of goods, as opposed to the overall production o… |
| **Market equilibrium** | This is where the marginal private benefit is the same … producing and consuming a good or a service. |
| **Social optimal equilibrium** | This is where the marginal social benefit is the same a… producing and consuming a good or a service. |
| **Welfare loss** | This refers to the loss in effi…y that results from th… |
| **Welfare gain** | This refers to the g…n… e…ency as the market mov… |
| **Economic agents** | These ar… …stakeholders in an economy (i.e. the… |
| **Government intervention** | …is …ers to the measures that a government under… |
| **Pub… …ds** | These are goods that are non-excludable and non-riva… |
| **Priva… …ds** | These are goods that can be used by only one consum… |
| **Non-rivalrous goods** | These are goods that can be used by many consumer… |
| **Non-excludable goods** | These are goods that can even be used by consumers … |
| **Free-rider problem** | This refers to the problem that is created by public go… goods without paying for them. |
| **Symmetric information** | This is a scenario where consumers and producers kn… information regarding a good or a service. |
| **Asymmetric information** | This is a scenario where either the consumers or the p… |
| **Merit goods** | A product that is under-consumed – perhaps due to lac… benefits. Often governments will provide these produc… |
| **Demerit goods** | A product that is over-consumed if the market is left a… regulate this type of produ…o …educe consumption. |

## Activity 19 – Market failure 2

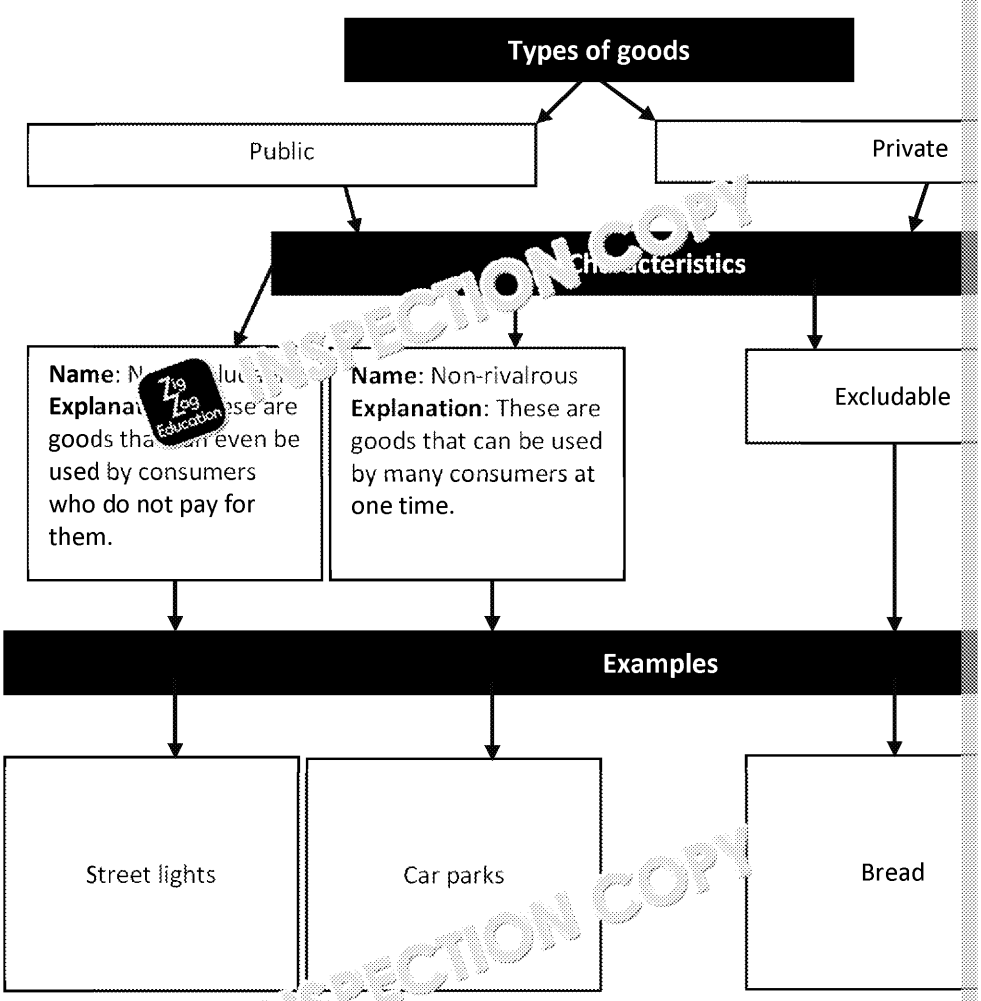
1.




**[Group 5]** The government could provide information about the harmful effects of s consumption in public places; it could provide consumer subsidies for tobacco alter cigarettes.

## Activity 20 – Market failure 3

1.




2. For exa... Th... ers to the issue that is created by public goods because some p... for then...

## Activity 22 – Government failure

1. Market failure refers to the misallocation of resources that results from the price m

   Government failure refers to the misallocation of resources that results from measu
   correct the initial misallocation of resources caused due to market failure.

2.

| Reasons | Explanation |
|---|---|
| **Information gaps** | G n n decisions may not be fully informed i n mation. |
| **Admi e costs** | Intervention generally has high administration co government for monitoring compliance of rules a These costs may be greater than the benefits inte |
| **Distortion of price mechanism** | There is a misallocation of resources when the pr to function freely. |
| **Conflicting priorities** | Government may have conflicting priorities, whic compromised measures taking place to deal with |
| **Unintended consequences** | Government intervention may have some additio |